Financing Public Deficits in Nigeria: Groping in the Dark for Taxation

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Abstract

Taxation as the orthodox source of public finance has waned in contemporary Nigeria's fiscal management, due to tax payers' diminished expectation of service delivery by government. In the alternative, public debt has gained currency and prominence, irrespective of the high risk complexion. Fiscal renaissance, particularly since the 1990s, has engendered a legion of reforms aimed at repositioning taxation and substantially increasing collections. The objective of this study is to conduct an expository examination of the inhibitions of voluntary tax compliance; and to explore prospects of leapfrogging tax contribution from the posterior position, given the lacunae in extant studies. In the descriptive research design, underpinned by the range of structural-functionalist and expectancy theories, salient among the findings of the study is the diminished contribution of taxation to Nigeria's GDP and total revenue, due to weak institutional framework and pervasive erosion of enthusiasm among tax payers. In the circumstance, Nigeria may be groping in the dark, in search of huge tax revenues. Accordingly, it is recommended, among others, that far-reaching fiscal reforms should be undertaken, to strengthen existing tax administration machinery; and to support the fiscal reformation, against the backdrop of mounting public debt.

Keywords: Deficit, Groping, Gross Domestic Product, Public Debt, Tax Reform and Taxation.

Introduction

Taxation is money that has to be aid as taxes, or the system of collecting money by taxes (Hassan, 2014). To Akpa (2013), tax is a compulsory levy imposed on the residents and other legal entities in a society by the government, the tax authority. Once levied, the payment of a tax is compulsory, while non-payment attracts severe sanction. In a nutshell, Akpa (2013, p.11) defines taxation as "a legal demand made on the citizens by a constituted authority to pay a stated amount of what is earned for development purpose".

Implicit in Akpa's definition is the purpose and role of taxation in the life of a country:

i. to raise money for the routine administration of the machinery of government;
ii. to generate revenue for providing the diverse goods and services for the wellbeing of the society, that is, for the provision of the infrastructure required for economic and social development;
iii. to redistribute wealth, in order to reduce the incidence of social inequality and injustice;

iv. to meet government's obligation to service public debt; and
v. to provide subsidies, in order to make some public goods affordable by the less economically privilege citizens; among others.

To be sure, macro-economic goal objective, and the size of government spending reflected in the size of annual budget.

Jhingan (2006) writes that of all the traditional sources and means of public revenue, taxation is perhaps the most effective instrument of fiscal policy, where fiscal policy is government's policy aimed at raising public revenue and incurring public expenditure and debt. To Jhingan (2006, p. 790), "budget surplus can be achieved through higher prices and tax rates". Implicit in the foregoing is that public debt should be a secondary option in bridging deficits, where further raising of taxation is impracticable or injurious to tax payers or the economy.

As a corollary to Jhingan (2006)'s position, Ricardian Irrelevance of Financing Mode Hypothesis posits that in financing infrastructure by government, using public debt or taxation has equivalent effect on the economy (Anyanwu, Oaikhenan, Oyefusi & Dimowo, 1997). In reality however, evidence from empirical literature reveals that public external debt portends high exposure to foreign lenders, particularly when improperly conducted. In contradistinction, beyond the incidence of taxation placed on the citizens who retain and enjoy public goods financed via taxation, not much has been reported about any unfavourable risk complexion for national sovereignty through imperialist tendencies, when taxes are raised. In spite of the more tolerable or near zero risk colour of taxation, evidence from studies reveal a declining trend in tax revenues as a veritable and preferred financing alternative, vis-à-vis the observed continuous "acquisition" of public debt in Nigeria. Investigating the rationale for this worrisome trend in Nigeria's fiscal management is the motivation for this study.

Given that taxation is the traditional and most potent instrument of generating public revenue, it is confounding that Nigeria, with its enormous population and economic size, has continued to rely substantially on other otherwise high cost revenue sources for budget financing. Roundly put, official sources (Federal Inland Revenue Service, 2018) put Nigeria's tax to gross domestic product (GDP) ratio at only 6 per cent. When compared to sister countries' ratios: India 16 per cent, Ghana 15.9 per cent, South Africa 27 per cent, and most developed countries: between 32 and 35 per cent, Nigeria's ratio is one of the lowest in the world.

Curiously, neither the Nigerian Government nor citizens hitherto exhibited signs of serious worry about the disturbing fiscal management situation and its implications for economic growth and sustainability. The contention of this study is that the poor attitude towards taxation portends a major governance challenge which all stakeholders (Government and citizens) should address frontally. Interestingly, the contemporary polemics appear to be receiving some impetus, given the resurgence of interest in diversifying public revenue sources and indeed the economy by Government. Literature and empirical studies in Public Finance generally, and Fiscal

Administration particularly in Nigeria, have focused largely on oil revenues and the prospects of optimizing earnings from the source by overindulging in international oil politics and economic diplomacy (Hussaini, 2014; Akpa, 2013; Omopariola, 2003). Discourses and policy focus on taxation have been largely passive, underscoring the tendency of stakeholders to undermine the centrality of taxation as a most veritable public revenue earner. The central problem of this study therefore, is that previous studies had failed to critically examine the relatively passive attitude of government to revenue generation through taxation. Instead, undue emphasis had been laid on oil revenue, notwithstanding the limitations imposed by the source, and the often unreadable global oil economics and politics.

The major objective of this study is to examine the key impediments of re-institutionalising and repositioning taxation as a major contributor to public revenue in Nigeria. Other objectives are to examine the prospects of repositioning taxation as the core of financing public budget and deficit, vis-à-vis public debt; and to proffer policy antidotes for raising the awareness of tax payment obligation as a major responsibility of citizens.

The following research questions are posed, to guide the study:

i. What are the major factors responsible for the observed diminished potentials of taxation as a major source of public revenue in Nigeria?
ii. Given that tax revenue is a major source of fiscal empowerment for service delivery and governance, what concrete initiatives had Nigerian Government taken to reposition taxation strategically, for optimal performance and expected contribution?
iii. What are the policy antidotes for removing the impediments and engendering a new paradigm for taxation, as a major public revenue contributor, away from its observed posterior location?

Conceptual Clarification

Taxation

In its simplistic connotation, taxation is a legal imposition of a compulsory financial demand or obligation on the citizen by a government, to meet developmental imperatives of a country. While compliance is commendable, infraction is punishable by law. The all-important role of taxation in the economic development of a developing country, as Nigeria, informs the imperative of the compulsion in its obligation. For one reason, public or social amenities provided with tax proceeds are indivisible; and for another reason, public goods are non-excludable. In-tandem with the political federalism of Nigeria is the fiscal federalist structure in which various forms of taxes have been imposed and assigned to the various government tiers by the various Constitution (as amended). Unfortunately, despite time and resources expended on campaign, sensitization and education of the citizenry on the need to pay taxes, “a large chunk of individuals and corporate bodies in Nigeria still does not meet this duty” (Sodamola, 2018, p.98).

Chief among the reasons for failure to pay taxes include lack of credible database of tax eligible and liable persons (individual and corporate), double taxation by different governmental tiers, ignorance, weak enforcement machinery and corruption. In an opinion, Emefiele (2018, p. 102) advocated that Nigerian Government "should begin to consider alternative revenue-generating means". It was suggested that taxing lengthy telephone calls, above three minutes and introducing minimal property taxes across Nigeria could generate additional annual revenue in excess of ₦100 billion.

Major Inhibitors of Tax Compliance in Nigeria

Given Nigeria's GDP size, it is confounding that the country's tax to GDP ratio remains dismally low at 6 per cent, when compared to the much higher ratios for Ghana, India and South Africa at 15.9 per cent, 16 per cent and 27 per cent respectively. The situation becomes more worrisome when the ratio is compared to the average of 32-35 per cent for the advanced and developed countries (ADCs), as noted (Federal Inland Revenue Service, 2018).

Tax revenue or yield in Nigeria is low due to pervasive default, through avoidance or evasion, perpetrated in various forms: falsification or manipulation of accounting records; lack of mechanism to accurately track the true incomes for assessing the actual tax obligations of residents; failure to register for value added tax (VAT); unduly withholding deducted VAT and failure to remit same to the appropriate tax offices; non-payment of capital gains tax on asset disposal; and outright evasion. In effect:

> there has been a systemic breakdown of compliance with the tax system with various strategies used to evade tax obligations. These include, but not limited to, transfer of assets overseas, the use of offshore companies in tax havens to secure assets, and the registration of assets in nominee names (Osinbajo, 2018, p.24-25).

Reacting to the losses to Government arising from tax evasion, Vice President Yemi Osinbajo noted that: "the loss to tax evasion in developing countries, especially in African, is three times higher than the money the continent receives in foreign aid every year" (Osinbajo, 2018, p.24-25). In a related reference to Thambo Mbeki's Report on illicit financial flows (Mbeki, 2018) which revealed great tax losses to African economies, Professor Osinbajo noted that the Mbeki Report indicted the multinationals and their local collaborators of practices that lead to tax evasion and tax losses. Concluding, the Vice-President noted that challenges are often posed in tax gaps, or disparity between "what we collect and what we could collect."

In Nigeria specifically, the phenomenon of declining contribution of taxation to total revenue profile has been historical. Table 1 presents a bird's-eye-view of the trajectory, for illustrative proposes.

Table 1: Percentage (%) Contributions of Taxation to Total Federal Government of Nigeria's Revenue, 1970-1990

Year	% Share of Direct Tax Revenue	% Share of Indirect Tax Revenue	% Share of Non-Tax Revenue
1970	22.83	58.33	18.84
1971	38.61	42.03	19.32
1972	44.44	34.24	21.32
1973	50.31	30.45	19.24
1974	66.83	10.98	22.19
1975	54.22	13.79	31.99
1976	56.94	13.05	30.01
1977	60.20	14.21	25.59
1978	53.75	23.04	23.21
1979	52.73	10.48	26.79
1980	60.14	11.90	27.96
1981	56.02	20.93	23.06
1982	47.67	21.10	31.23
1983	41.21	18.89	39.90
1984	49.87	14.44	35.69
1985	53.39	14.95	31.66
1986	47.80	19.08	33.12
1987	54.74	14.13	31.16
1988	51.51	15.61	32.87
1989	52.00	11.84	36.17
1990	45.32	13.4	41.64

Sources: Computed from Central Bank of Nigeria (CBN): Nigeria Principal Economic and Financial Indicators, 1970-1990," Lagos; and CBN, Annual Report and Statements of Accounts, (various issues), Lagos, 1970-1990, culled from Anyanwu, (1997).

From Table 1, it is observable that the phenomenon of tax avoidance or invasion dated back to the 1970's. While the contribution of direct tax to total revenue was at an average 48 per cent, indirect tax's contribution experienced an accelerated downward trajectory from 58.33 per cent in 1970 through 20.93 per cent, 14.44 per cent and 13.4 per cent in 1981, 1984 and 1990 respectively. The situation may not have improved significantly recently, given the preponderance of the attitudinal desire to avoid or evade the "more easily avoidable indirect taxes by consumers. The Joint Tax Board (JTB) in 2018 reported that as at May 2017, out of an estimated 69.9 million economically active and taxable people in Nigeria, only 14 million (or 20%) were enlisted in the tax net. These highly disproportionate tax revenue figures corroborate Nigeria's low tax to GDP ratios. In Table 2, the ratios of the various tax types to GDP for the period 1970-1996 are presented.

Table 2: Percent Share of Tax Revenue in GDP in Nigeria, 1970-1996

Year	Direct Taxes	Indirect Taxes	Other Tax Revenue	Federal Retained Revenue	Total Federal Collected Revenue
1970	2.8	7.1	2.3	7.0	12.2
1971	6.9	7.5	3.5	13.1	17.8
1972	8.7	6.7	4.2	14.9	19.5
1973	8.4	5.1	3.2	13.7	16.8
1974	16.6	2.7	5.5	21.3	24.8
1975	14.3	3.6	8.4	24.4	26.3
1976	14.5	3.3	7.6	21.1	25.4
1977	15.4	3.6	6.5	20.5	25.5
1978	11.5	4.9	5.2	17.8	21.3
1979	13.7	2.7	9.6	21.1	26.0
1980	10.8	3.7	8.6	24.5	30.7
1981	8.0	4.9	5.5	14.5	23.6
1982	8.1	4.8	7.1	14.4	22.6
1983	9.9	3.7	7.7	11.5	19.3
1984	7.2	2.4	6.7	9.1	16.3
1985	12.1	2.8	6.0	8.9	18.5
1986	9.7	2.9	5.7	9.8	15.1
1987	13.3	3.1	6.9	14.2	22.0
1988	n.a.	2.9	6.6	10.7	18.8
1989	n.a.	3.0	9.8	13.6	25.6
1990	n.a.	3.3	n.a.	16.5	28.6
1991	n.a.	3.5	n.a.	11.1	31.2
1992	n.a.	2.9	n.a.	9.5	34.6
1993	n.a.	2.2	n.a.	9.7	27.5
1994	n.a.	2.8	n.a.	14.5	22.1
1995	n.a.	4.1	n.a.	17.4	32.0
1996	n.a.	3.7	n.a.	11.9	22.1

Source: CBN Annual, Report and Statement of Accounts (Various years), Culled from Anyanwu (1997).

At annual average of 11.2 per cent, the ratio of tax to GDP from historical antecedents which support the more recent evidence, were higher for the relatively unavoidable direct taxes. On annual average also, the ratio of indirect tax to GDP was about 3.7 per cent. When compared to the ratio of 6 per cent as reported in 2010, after 48 years, the rate of growth remained low. The ratio for total collection was however higher at an average 23.7 per cent when compared to the current value of 6 per cent (2019).

Government's Efforts at Enhancing the Potentiality of Taxation

Although the responsibility of removing the inhabitations to tax payment and generating huge tax revenue is that of Government, an examination devoid of the role of other stakeholders (citizens) is lopsided and only blame-trading. To begin, the question is: what has been done to change the paradigm? The apathy to tax payment in Nigeria derives from the poor perception of tax payers (private or corporate) about public accountability adjudged as lacking. In their slogan, FIRS has often stated that "tax is what you pay, value is what you get". On that basis, FIRS enjoins citizens to pay taxes and to expect service. The experience however is that citizens get little or nothing for taxes paid over the years, thanks to intractable corruption.

To understand the nature and origin of the apathy, several questions maybe asked:

i. what happened to the humongous federally earned revenues, from crude sale, taxation, mining, etc, over the years, vis-à-vis the "underdevelopment" bequeathed to the citizenry by successive Governments?

ii. why has power (electricity specifically) remained illusory in Nigeria?

iii. why are roads in unmotorable conditions?

iv. why are the rural areas of Nigeria so undeservedly underdeveloped?

v. why are schools semblances of stores, bereft of instructional materials and facilities?

vi. why are hospitals benefit of drugs and medical facilities?

vii. why is basic potable water unavailable to citizens?

viii. why do the political and bureaucratic elite classes which account for less than 1 per cent of the total population of Nigeria appropriate and amass humongous proportions of the national wealth to themselves through direct, copious and brazen corruption and expensive official life style? In 2019, Transparency International ranked Nigeria 146 out of 180 countries in terms of transparency.

ix. Why is unemployment, let alone under-employment, characteristic of the Nigerian state, in spite of the country's resource endowment? and

x. Why has the Nigerian Government yielded to the "indomitability" of corruption, through soft-landing palliatives for even obvious "convicts"?

Answers to the above and other numerous derivative questions will provide an insight into the observed tax payer-apathy. For a world-be tax-payer, it is the considered view that paying the appropriate tax, or paying a tax at all, tantamount to "contributing from his penury to the huge amount already available from other sources (oil revenue, foreign aid, public debt, etc) to public authorities for appropriation for corruption.

As to the question of what is being done to reposition taxation in Nigeria, answer can be found in the gamut of policy initiatives covering tax incentives and tax collection among others, all encapsulated in reforms in tax administration within the ambit of enabling fiscal and tax laws. In Nigeria, the cardinal responsibility to drive the above initiatives rests with FIRS which compares with the British and US counterparts: Her Majesty Revenue and Customs (HMRC) and United States Internal Revenue Service (IRS) respectively. The priorities of HRMC traverse three strategic objectives: to maximize revenues due and bear down on avoidance and evasion; to transform tax and payments for customers, and to design and lead an active or organization. Similarly, the role of IRS is to assist the large majority of complicated taxpayers with the tax law, while ensuring that he minority who are unwilling to comply pay their fair share. In the stakeholders joint responsibility for an efficient and effective tax regime in the US, Congress passes tax laws and requires taxpayers to comply. In the framework, the taxpayer's role is to understand and meet his tax obligation to the state.

From the foregoing, the structural-functional framework of taxation in Nigeria revolves around FIRS, given its mandate to generate huge revenue to fund governance. To achieve the challenging responsibility, it is imperative that the Service is reformed and repositioned legally administratively and operationally. In this regard, several policy initiatives have been undertaken by Federal Inland Revenue Service, since 2013 (Fowler, 2018) as presented:

i. Tax amnesty, to encourage tax defaulters to take a time-limited interest and penalty waiver advantage, for the period 2013-2015.

ii. Review of the relevant operating laws and policies, to enhance compliance and operational efficiency in tax administration through the reactivation of Section 43 of Companies Income Tax Act, Cap C1, LFN 2004.

iii. Ease of tax payment, which enables tax payers to file their returns at FIRS offices nearest to them.

iv. Reorganization of FIRS' operations for effectiveness and efficiency, for proximity to tax payers by appointing State Coordinators.

v. Coordination of stamp duty and appointment of 37 Commissioners, supported with the installation of new stamp duty machines.

vi. Establishment of VAT Coordination Department, to ensure that VAT dedicated officers are readily available in all States;

vii. Appointment of Relationship Managers in key sectors: Aviation, Telecommunications, Banking, Oil and Gas, Professional Services, Conglomerates and Multinationals, to enhance service delivery and secure voluntary compliance in targeted sectors.

viii. More recently, tax reforms contained in the Finance Act, 2020 hiked VAT rate from 5 per cent to 7.5 per cent. The hike, effective from January 2020, is expected to "fetch N8.15 trillion in cash". Besides the "VAT hike will boost states' finances", according to the Minister of Finance (The Nation, 2020, p. 1; Fowler, 2018).

Other reforms covered expansion of the national tax roll and tax net; collaborations with JTB and State Internal Revenue Services; tax education and enlightenment; campaign in major Nigerian languages upscaling of information and technology infrastructure; automation of tax administration process through the Integrated Tax Administration System (ITAS), in order to achieve ease of doing business with FIRS; e-stamping through Integrated Stamp Duty Services (ISDS); and massive recruitment and training of personnel, among other initiatives, to boost tax generation and revenue.

To be sure, efforts at reforming Nigeria's tax system are not entirely recent. During the Structural Adjustment-related reforms in the 1980s, it was observed among others, that from the supply-side economics, the subsisting personal income tax was inherently biased against work effort because the tax discouraged work and saving, while promoting leisure. The implication of the phenomenon is that while saving was taxed doubly, consumption was taxed singly. By extension, productive investment suffered double taxation, vis-à-vis single taxation, applicable to unproductive investment. Given that high marginal income tax rates aggravated the biases very significantly, reducing marginal income tax rates was expected to increase labour supply, savings and investment (Anyanwu, 1997).

To shift the paradigm, an increasing wave of tax reforms blew across the world, Nigeria inclusive in the 1990s, with focus on reducing marginal income tax rates for huge reliance on indirect taxes, essentially value added tax (VAT), in order to correct the distortion. Generally, there was a strong reawakening in discourses in Public Finance literature that tax structures in most LDCs were complex, inelastic, inefficient, and inequitable, with heavy reliance on customs and excise sources, away from consumption taxes. The levying of personal and company income taxes were premised on narrow bases but at high rates. Anyanwu (1997) writes that the broad goal of such tax reforms was to secure an efficient tax system, based on taxes that were "politically feasible, administratively practicable" and capable of producing sufficient revenue to fund governance, with minimum economic distortions.

In response to the renaissance, Study Groups on the Nigerian Tax System and Administration empanelled in 1991 reviewed the tax structure and system from independence in 1960 and observed the need to revise the existing tax system, to reflect the changing economic and political developments. The outcome of the study gave the needed vent to a comprehensive overhaul of the Nigerian tax system, via the various Federal Government Decrees (Decrees 102, and 3, 1993, etc), as subsequently amended. To be sure, the voyage of tax reforms had continued. But why the contribution of tax revenue to Nigeria's GDP remains abysmally low at the reported 6 per cent (2018) is central to Nigeria's groping in the dark for tax revenue.

Theoretical Framework

Given that the range of inhibitors of taxation in Nigeria could be coalesced into two broad categories or groups: weak and dysfunctional institutions and taxpayers' apathy, it is discernible that an analysis of the poor performance of taxation, vis-à-vis its expected mandate and contribution, should be properly situated in the failure of weak tax structures or institutions, in performing their functions, leading to poor governance and the resultant taxpayer disillusionment. Against the backdrop of the institutional and attitudinal challenges, a range of theoretical models may be explored in explaining the phenomena. In this wise, structural-functionalism, expectancy and frustration theories, among others are relevant.

Specifically, Structural-Functionalism was earlier adopted in Sociology and Anthropology by Emile Durkein, Tallcott Parsons (1961) and Robert Merton (1968), although its origin is the biological sciences, as part of system analysis. Proponents of the theory viewed society as a system comprised of an arrangement of parts (structures) which behave (function) in a coordinated and inter dependent manner, to achieve the objective of the society.

Almond and Powel (1966) extended the theory to political system with his position that two basic concepts: structures and functions, are important in realising the objectives of a system. To Almond therefore, every political system has structures composed of roles; and an individual can perform several roles. In effect, Almond's typology of Structural-Functionalism assumes that all systems have identifiable structures which perform functions within the systems.

Vroon (1964)'s Expectancy Theory has been widely supported and accepted among the contemporary theories of motivation. The cardinal thesis of the theory is the argument that "a person's motivation towards an action would be determined by the expectation that the effort would culminate in a success", where "expectancy is the perceived probability of satisfying a particular need of an individual, based on past experience" (Sapru, 2013: 462). Implicit in the thesis is the functional relationship between effort and expected reward. Although the theory was designed for work place motivation of employees, its essence can be extended to a relationship in which favourable expectation can be potent in driving action or effort.

On frustration, Nwachuchwu (2016) believes that the situation arises in a problem-solving behaviour which may take the form of variability in thought or action. In extreme situation, the person can abandon the problem and settle for something less. In his view, Maier (1961) noted that when the individual is blocked from his goal, after several attempts, tension may be built up inside him. Generally, pressure, failure and inability to escape from a problem situation give rise to frustration. In relation to tax-payer-apathy in Nigeria, frustration may be discernible, given the failure of Government in providing the desired public goods for which tax obligation had been met.

The relevance of the theories to this study is discernible: Structural-Functionalism provides an analytical basis for understanding the observed institutional (legal, policy and administrative) failure to perform the function of effective and efficient tax administration in Nigeria. Similarly, the apathy of tax payers to voluntary compliance, and indeed the abandonment of the very critical civic responsibility, may be explainable by the low expectation of service from Government, leading to frustration and resort to "Plan B" through, for example, individual power generation, as opposed to reliance on official sources; private schools versus public schools, private transportation versus public mass transit, et cetera.

Methodology

The study employed descriptive research design. A content analysis of available literature and records was undertaken, to gain valuable insights into the challenges of taxation in Nigeria. To complement information obtained from the aforementioned sources, a cross-sectional survey analysis was conducted. The objective was to obtain the opinions of diverse people who are either actual or potential tax payers but who have not been enlisted in the tax net. A mail questionnaire was posted to the electronic mail addresses of 1,000 peoples in various geo-political zones, specifically at Lagos, Ibadan, Kaduna, Kafanchan, Benin, Ewu Kumo, Sokoto, Onitsha, Gboko, Lokoja, Azare, Warri, Abakaliki, Paiko, Akwanga, Gboko, Ikom, Gbagan and Numan. The choice of locations was random; but care was taken to ensure a wide spread in terms of urban and rural statuses and the associated levels of deprivation with respect to available social amenities.

Data Analysis

Table 3 presents a summary of the success rate of the questionnaire administration

Table 3: Questionnaire Administration

S/No	Location	Total Copies of Questionnaire Posted	No. of Responses	% of Responses to Total Posted
1	Lagos	50	50	100
2	Ibadan	50	50	100
3	Kaduna	50	50	100
4	Kafanchan	50	50	100
5	Benin	50	50	100
6	Ewu	50	30	60
7	Kumo	50	40	80
8	Kano	50	50	100
9	Sokoto	50	50	100
11	Lokoja	50	50	100
12	Azare	50	35	70
14	Abakaliki	50	40	80
15	Paiko	50	25	50
16	Akwanga	50	50	100
17	Gboko	50	40	90
18	Ikom	50	50	100
19	Igbaja	50	50	100
20	Numan	50	40	80

Source: Field Survey, 2019

From Table 3, it is observable that out of the 1,000 copies of the questionnaire posted, 870 were completed and returned, giving a high success rate of 87 per cent.

Table 4: highlights the responses to the specific questions on the various factors militating against high voluntary tax payment compliance.

Table 4: Factors Militating Against Voluntary Tax Payment in Nigeria

		Responses			
S/No	**Parameter/Factor**	**Yes**	**%**	**No**	**%**
1	**Personal Profile**				
	Age				
	Below 20 years	0	0	870	100
	20 year and above	87	100	0	0
	Occupation	Various			
	Location of Respondents	Various			
2	**Service Delivery Expected**				
	Power/Electricity				
	Security	870	100	0	0
	Employment	870	100	0	0
	Communication	870	100	0	0
	Healthcare	870	100	0	0
	Roads	870	100	0	0
	Schools	870	100	0	0
	Housing	870	100	0	0
	Others	870	100	0	0
3	Are the facilities effectively, and efficiently provided?	10	11.50	770	88.50
4	Do you pay your taxes fully and regularly?	320	36.78	550	63.22
5	If, "Yes", how do you pay?				
	Direct Payment (PIT)	320	36.78		
	Company Income Tax (CIT)	550	63.22		
	Value Added Tax (VAT)	870	100		
	Other Taxes	0	0	870	100

6	If "No" why do you not pay taxes? Reasons: a. Lack of public social amenities b. Dilapidated infrastructure c. Corruption/lack of accountability d. Business failure e. Double taxation	550 550 550 550 550	63.22 63.22 63.22 63.22 63.22	320 320 320 320 320	36.78 36.78 36.78 36.78 36.78

Source: Computed from responses in Questionnaire and Oral Interviews: Field Survey, 2019

From a perusal of Table 4, it is discernible that Nigerians expected high delivery on numerous basic social amenities and infrastructure from Government. Such amenities include electricity, roads, water, efficient mass transportation and communication systems, conducive business environment, food security, employment, schools and affordable housing among others. Unfortunately, not even the most basic needs of mankind: food, housing and security were guaranteed. Instead, pervasive corruption, dilapidated infrastructure, unemployment and, insecurity, among others had been adequately and efficiently provided by government.

Arising from the responses in the questionnaire, and as expected a-priori, Table 5 presents the low contribution of tax to Nigeria's GDP when compared to peer countries and the developed world.

Table 5: Comparative Tax to GDP Ratios for Nigeria and Selected Countries (in percentage)

S/NO	Country	Ratio (%)
1	Nigeria	6
2	India	16
3	Ghana	16
4	South Africa	27
5	Developed Nations (Most)	32-35

Source: Taxpayers: Published by Pesther Brands Ltd, Abuja "FAQs" Special Edition, Vol.1, No.1, 2018. Pp. 38-39.

From Table 5, the low contribution of tax to Nigeria GDP is discernible. It is therefore significant that something critical should be done, to up the contribution.

Summary of Findings

Several findings were made from nutshell the analysis, salient among which include the following:

i. Voluntary tax compliance has progressively diminished due to payers waned enthusiasm, ascribable to corruption.

ii. As a corollary to 1, tax yield and it contribution to total public revenue has diminished, giving vent to the prominence of public debt as alternative.

iii. The institutional framework for tax administration is so weak that it is incapable of achieving its mandate effectively. Consequently, tax evasion, particularly in the informal but larger sector of the economy is prevalent.

iv. In the circumstance of the “unfavourable environment” relying on taxation as a major source public finance may be illusory: Government may therefore be groping in the dark in search for tax revenue in the required quantum, in the short term.

Discussion of Results

For focus, the discussion is patterned along the questions posed. To begin, as reviewed, Nigeria’s fiscal trajectory reveals a relatively low contribution of tax revenue to GDP. In answering the question as to the major reasons for the diminished or diminishing potentiality of taxation as a major revenue contributor to federal revenue, several reasons have been adduced. Of critical note is the high resentment by the citizenry to voluntary compliance with any form of taxation or levy by Government, for reason of lack of commensurate governance through provision of social goods and services. In support of this widely held notion, the proportional contribution of direct income tax (PIT) and VAT their leading volumes, when compared with other tax types, such as capital gains, property tax and levies which are easily avoidable. The situation is exacerbated by lack of potent tax administration machinery across Nigeria.

Numerous incentives: voluntary assets and income declaration scheme, e-taxation, reorganization and professionalization of revenue service to deliver superior services, measures to ease tax payment, tax education and public enlightenment, among others, may not have successfully assuaged tax payers who believe that there has been no value for their payment. Thus, it was a common-place question asked by respondent tax-payers during the field interviews with the researchers: if all the huge earnings from oil resources are “inadequate”, is it the paltry tax monies from the meagre salaries or low corporate profits that will do the magic?

A corollary question also asked by respondents was whether or not taxation is actually for developmental funding, or to feather the rest of tax authorities and government. The notion is that tax revenues are not applied judiciously for the purpose of service delivery, due to pervasive corruption. In the circumstance, any tax demand is intended to further milk the proletariat or peasants whose welfare is immaterial to Government. Against this background, the situation in which tax enforcement is Herculian, except where payment is inescapable, as in PIT is a trite experience. Even VAT collections have been randomly sabotaged by service providers through failure to deduct or remit proceeds to the appropriate tax authority.

Without doubt, Nigerian Government had undertaken reformation aimed at reawakening voluntary embracement of tax compliance as a cardinal civic obligation by all eligible citizens. Reforms dated back to the 1990s, following the strong advice by the World Bank and IMF, after the 1990 Conference on the Review of Tax Reforms (Anyanwu, 1997). The challenge was that LDCs’ tax structures were so complex, inelastic and inefficient that major balance of payments disequilibria had their origins in inappropriate fiscal policies (Anyanwu, 1997). Consequently, tax system reform was critical for the success of macroeconomic and structural reform policies.

In 1991, therefore, Nigeria established various study groups otherwise known as Nigerian Tax System and Administration for direct taxes and indirect taxes, in January and April 1991 respectively, with a mandate to study and recommend on a tax system improvement. One of the major outcomes of the reforms was the abolition of Decree 102 of 1993 which abolished sales tax, but introduced VAT, with effect from January 1994, after a lead period of two years, during when the modified VAT (MVAT) was adopted. Earlier in 1992, reforms in PIT, CIT and Petroleum Profits Tax (PIT) had been undertaken. To be sure, much emphasis has been laid on reforms in VAT, in view of its high contribution to tax revenues.

More recently, reforms were carried out to ease tax payment: electronic applications and appointment of Relationship Managers, prompt issuance of tax clearance certificates, minimization of double taxation through the coordinating machinery of JTB, international institutional alliances and cooperation, Nigerian-Kenyan. Double Taxation Agreement, Quatari and Namibia. Double Taxation Agreements and India and Iran Double Taxation Agreement (DTA) have been undertaken. More precisely, Nigeria had thirteen DTAs in force, with seven others awaiting enactment into law as at 2014 (FIRS, 2014).

Notwithstanding the efforts and the results, it is surmised that much more is required to be done, particularly in the intractable problem of loss of confidence in governance by tax payers. The apathy is ascribable to experience and may be deeply rooted. Until the psyche is reworked and reversed to a positive status, all reforms may be as efficacious as “tax enforcement” can achieve, and as far as tax payers are willing.

Conclusion

Away from the traditional taxation arrangement for financing governance, Nigeria has depended largely on oil revenue since the late 1970’s. With the increasing demand for development and the associated huge revenue requirement, government has resorted largely to public debt; because the much needed civic tax obligation consciousness of the citizenry is on the wane and tax revenues are inadequate. The thinking is that unless the key extenuating factors which traverse corruption and poor governance are addressed, government may be groping in the dark, in search of taxation, as a major source of revenue for budget funding.

Recommendations

Arising from the analysis and discussion, the following recommendations are offered;

i. Government should overhaul the existing legal and administrative framework, fiscal to reposition it for effectiveness and efficiency. While also emphasizing those inescapable indirect taxes (VAT, etc), search light should be beamed on corporate taxation where it is expected that much avoidance and evasion is prevalent, through under reporting and other accounting sharp practices, all amounting to fraud.

ii. Tax compliance is a civic obligation. It must be learned and internalised by all citizens, irrespective of status and occupation. Government should therefore institutionalise the teaching of tax payment obligation and hence voluntary compliance in curriculum of the formal institutions. Similarly, regular and sustained public enlightenment on the civic obligation of tax payment should be periodically undertaken, to extend the knowledge and awareness to the informal sector;

iii. Government should intensify the anti-graft war, given tax payers antipathy towards tax obligation, ascribable to pervasive corruption, leading to absence of value for taxation.

iv. Government should minimize the grant of tax concession to powerful business moguls (and taxable items), either for political patronage or reimbursement. The practice tantamounts to tax avoidance and leads to diminished tax yield, or huge losses in tax revenue.

v. It has been estimated by FIRS (2014) that over 70 per cent of the informal sector of Nigeria's economy evade taxation. The tax authority should therefore put in place an effective machinery to expand the tax net in the sector, so as to enlist the otherwise potential tax payers who evade liability.

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